

South Carolina Board of Economic Advisors

Statement of Estimated State Revenue Impact

Date: April 18, 2007

Bill Number: H.B. 3649

Authors: Witherspoon, Merrill, Agnew, et al.

Committee Requesting Impact: House Ways and Means

Bill Summary

A bill to amend the Code of Laws of South Carolina, 1976, by adding Chapter 63 to Title 12 so as to enact the "Energy Freedom and Rural Development Act" to allow a sales tax rebate for the purchase of certain fuel efficient vehicles and equipment used to convert a hybrid vehicle into a hybrid plug-in vehicle, to allow an incentive payment for alternative fuel purchases, and to establish the South Carolina Renewable Energy Infrastructure Development Fund; by adding Section 12-6-3376 so as to allow an income tax credit for the purchase or lease of a plug-in hybrid vehicle; by adding Section 12-6-3630 so as to allow an income tax credit for qualified expenditures for research and development of feedstocks and processes for cellulosic ethanol and for algae-derived biodiesel; by amending Section 12-6-3587, relating to tax credits for solar energy heating and cooling systems, so as to allow a tax credit equal to three thousand five hundred dollars for each building that is installed with a solar energy system; by amending Section 12-6-3600, relating to tax credits for an ethanol and biodiesel facility, so as to allow a tax credit for a corn-based ethanol and soy-based biodiesel facility and a noncorn ethanol and nonsoy oil biodiesel facility; by amending Section 12-6-3610, relating to tax credits for the cost of purchasing and installing property to distribute and dispense renewable fuels, so as to limit the credit to one million dollars, to define the term "renewable fuel", and to add clarifying language; by amending Section 12-6-3620, relating to tax credits for the cost of methane gas use, so as to allow a tax credit for the cost of equipment to create a form of energy from a biomass resource and to limit the credit to one million dollars; and by amending Section 12-28-110, as amended, relating to the motor fuel fees, so as to change the definition of "biodiesel".

REVENUE IMPACT ^{1/}

This bill is expected to decrease General Fund sales tax revenue by \$3,383,000 in FY 2007-08 due to the sales tax rebates on alternative fuel vehicles. The incentive payments to retailers will reduce General Fund revenues by \$1,730,000 and income tax credits for alternative fuel production, distribution, and development will reduce General Fund income tax revenue by an estimated \$1,042,857. The total estimated reduction in General Fund revenue for FY2007-08 is estimated to be \$6,155,857. The income tax credit for the purchase of a plug-in hybrid vehicle is expected to reduce General Fund income tax revenue by \$200,000 in FY 2008-09.

Explanation

The following is a review of sections of the bill related to revenues.

Section 1. This section provides a sales tax rebate of \$300 for the in-state purchase of a flex fuel vehicle capable of operating on 85% ethanol fuel (E85), an advance lean burn or hydrogen-fueled vehicle, a hybrid or plug-in hybrid vehicle, or a high fuel economy vehicle with a city fuel economy rating of 30 miles per gallon or higher. It also provides a \$500 sales tax rebate for the conversion of a conventional hybrid vehicle to a plug-in hybrid vehicle or conversion of a conventional vehicle to operate on propane, compressed natural gas, liquefied natural gas, hydrogen or E85. The rebates allowed by this section are expected to decrease General Fund sales tax revenue by an estimated \$3,383,000 in FY 2007-08. The section also provides incentive payments to retailers of \$0.05 per gallon of 70% ethanol fuel (E70) and \$0.25 per gallon of pure biodiesel (B100) for on-road and off-road use. We anticipate retailer payments for 3,600,000 gallons of E70 at \$180,000 and 6,200,000 gallons of B100 for \$1,550,000. The total estimated reduction in General Fund revenue from this section is anticipated to be \$5,113,000 in FY 2007-08.

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Section 2. This section creates an income tax credit of \$2000 for the in-state purchase or lease of a plug-in hybrid vehicle. Plug-in hybrid vehicles are expected to be offered for sale in 2008, so an income tax credit would be taken in tax year 2008, reducing General Fund income tax revenue by an estimated \$200,000 in FY 2008-09. There is no anticipated impact on General Fund income tax revenue in FY 2007-08.

Section 3. This section provides an income tax credit of 25% of expenditures relating to research and development of feedstocks and processes for cellulosic ethanol and for algae-derived biodiesel, not to exceed \$100,000 per taxpayer. We anticipate one facility will be eligible for this credit with a maximum reduction in General Fund Revenue of \$100,000 in FY 2007-08.

Section 4. This section amends Section 12-6-3587 relating to the income tax credit allowed for the purchase and installation of solar energy systems. This clarifying language is not anticipated to affect General Fund revenues for FY 2007-08.

Section 5. This section amends the income tax credit in Section 12-6-3600 for the production of ethanol and biodiesel. It increases the credit for non-corn ethanol and non-soy biodiesel from \$0.20 per gallon to \$0.30 per gallon. The net result is an additional reduction in income tax revenue of \$0.10 per gallon produced. We anticipate one facility producing 6,000,000 gallons of non-soy biodiesel in FY 2007-08 for a reduction in General Fund Revenue of \$600,000 in FY 2007-08.

Section 6. This section amends Section 12-6-3610 which provides income tax credits for expenditures relating to renewable fuel production and distribution. It clarifies the 25% credit for the cost of purchasing equipment for renewable fuel distribution which is not anticipated to affect income tax revenue. It amends the credit of 25% of the cost of constructing a facility for producing renewable fuels by also applying the credit to expenditures for renovating facilities in addition to new construction and limits the total credit for all years to \$1,000,000. It is anticipated that one facility will qualify for the amended credit, which taken over 7 years, will decrease General Fund income tax revenue by \$142,857 in FY2007-08.

Section 7. This section amends Section 12-6-3620 that provides a 25% income tax credit for costs incurred related to producing power from methane gas and applies the credit to expenditures for installation of equipment used to create heat, power, steam, electricity, or another form of energy for commercial use from a biomass resource. The total credit is limited to \$1,000,000 per taxpayer and can be carried forward for up to 15 years. It is anticipated that this will reduce General Fund income tax revenue by \$200,000 in FY 2007-08.



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¹¹ This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.

ALTERNATIVE FUEL CREDITS - H 3649 FY07-08

Line

Section 1.

Vehicle Sales Tax Rebates	Sales Tax Rebate	New and Used Cars Sold in SC	Estimated Qualifying Cars	Total Cost	
Flex-fuel vehicles capable of operating on E85 fuel	\$300	490,000	5,629	\$1,688,700	2
Hydrogen fuel cell and/or advanced lean burn vehicles	\$300	490,000	0	\$0	3
Hybrid and Plug-in Hybrid gasoline-electric vehicles	\$300	490,000	3,013	\$903,900	4
High fuel economy vehicles with an EPA rating of 30mpg (city) or higher	\$300	490,000	2,468	\$740,400	5
Conversion of hybrid gasoline-electric vehicles to plug-in hybrid gasoline-electric vehicles; conversion of conventional vehicles to operate on propane, compressed natural gas, liquefied natural gas, hydrogen or E85	\$500	490,000	100	\$50,000	6
Total Vehicle Sales Tax Rebates				\$3,383,000	7
Alternative Fuel Retailer Incentives	Payment		Estimated Total Gallons	Total Cost	
Payment to retailer per gallon of E70 or greater sold after June 30, 2006 provided that the fuel is subject to the motor fuel user fee	\$0.05		3,600,000	\$180,000	8
Payment to retailer per gallon of pure biodiesel sold after June 30, 2006 provided that the fuel is subject to the motor fuel user fee	\$0.25		6,000,000	\$1,500,000	9
Payment to retailer or wholesaler per gallon of pure biodiesel sold as dyed diesel fuel for off road use	\$0.25		200,000	\$50,000	10
Total Fuel Retailer Incentives				\$1,730,000	11
Total for Section 1				\$5,113,000	12

Section 2.

Income Tax Credit for Plug-in Hybrid Vehicles	Income Tax Credit		Estimated Cars	Total Cost	
Income tax credit of \$2000 beginning in 2007 for the in-state purchase or lease of a plug-in hybrid vehicle. (Anticipated sales of 100 vehicles in 2008 - would reduce income tax revenue in FY 08-09 by \$200,000)	\$2,000		0	\$0	13

Section 3.

Research and Development	Income Tax Credit		Estimated Expenditures	Total Cost	
Income Tax Credit for Research and Development Expenditures related to cellulosic ethanol and for algae-derived biodiesel up to \$100,000 per taxpayer	25% of Expenses		\$400,000+	\$100,000	14

Section 4.

Solar Systems	Income Tax Credit		Estimated Expenditures	Total Cost	
Amends Section 12-6-3587 by clarifying the income tax credit for the expenses incurred in the purchase and installation of solar energy system	25% of Expenses			\$0	15

ALTERNATIVE FUEL CREDITS - H 3649 FY07-08

Line

Section 5.

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Income Tax Credits for Alternative Fuel Production (amends Section 12-6-3600)	Additional Income Tax Credit	Estimated Facilities	Estimated Total Gallons	Total Cost
Amends section 12-6-3600 by increasing the income tax credit for production of non-corn ethanol and non-soy biodiesel from 20¢ per gallon to 30¢ per gallon.	\$0.10	1	6,000,000	\$600,000

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Section 6.

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Income Tax Credits for Distribution and Production of Renewable Fuels (Amends Section 12-6-3610)	Income Tax Credit		Estimated Expenditures	Total Cost
Amends Section 12-6-3610(A) - Business or personal income tax credit for costs associated with the purchase, construction and installation of property for distribution or dispensing of a renewable fuel (biodiesel and ethanol). The credit must be taken in 3 annual installments beginning in the year that the property is placed in service.	25% of Expenses			\$0
Amends the Section 12-6-3610 (C) business or personal income tax credit for construction of a commercial facility for the production of a renewable fuel to include renovations. The credit must be taken in 7 annual installments and is not to exceed a total of \$1,000,000.	25% of Expenses		\$4,000,000+	\$142,857

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Section 7.

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Income Tax Credits for Biomass Energy Production Equipment (Amends Section 12-6-3620)	Income Tax Credit		Estimated Total Expenditures	Total Cost
Amends Section 12-6-3620 - creates a business or personal income tax credit for purchase and installation of equipment used to create heat, power, steam electricity or another form of energy for commercial use from a biomass resource not to exceed \$1,000,000 per taxpayer limited to 50% of tax liability with carryforward for 15 years.	25% of Expenses		\$4,000,000+	\$200,000

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TOTAL FOR FY 2007-08

\$6,155,857

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Source: SC Board of Economic Advisors